

COMMISSIONER BECKER: Well thank you very much.

The first Commissioner to address a question is to my left, Mr. D'Amato.

COMMISSIONER D'AMATO: Thank you, Mr. Chairman. I don't know if I need this microphone. I'll use this one.

This is a question for Mr. Sweeney. Reading today's USA Today, and assuming that all the quotes are outrageously inaccurate, I would like to ask you about this new development with regard to your policy on the Administration's posture toward the WTO talks in Seattle.

As I understand it then, there is some sort of a working group. The Administration, I presume, from your perspective, is serious in an attempt to include something with regard to labor standards in the WTO talks, and I presume environmental standards.

My question is, in signing up to this, do you have a set of minimum requirements as to what those standards should be? Should they be included in the final document or is this to set up a new study within WTO, but not to be included in the core of the rules of the WTO? How is this going to evolve in Seattle to your satisfaction?

MR. SWEENEY: Well, it's really premature I think to answer some of the specifics that you are

asking. But it's safe to say that this is a continuing effort on the part of the labor movement, as I said in my testimony, to include core labor standards and environmental protections in our trade agreements. We saw this as an opportunity in some of the commissions that we're on. I'm on the Advisory Committee on Trade Policy and Negotiations, which is the committee report that the news story was referring to. We now have the support of business leaders as well as others in endorsing our government's position to establish a working group on trade and core labor standards at the WTO.

What form or what process will come out of those discussions remains to be seen. But it was important to get our own government on record so that it could negotiate with other governments around the world on these issues, and to highlight the importance of worker issues in our trade agreements.

COMMISSIONER D'AMATO: Mr. Montgomery, do you have a feel for where the Administration is going on this question?

MR. MONTGOMERY: Yes. The Administration is obviously committed to having a working group, as President Sweeney just said, on labor and the environment at the WTO. I should point out that the EU recently endorsed a similar concept for having labor

and environment considered in the WTO and having a labor-working group, working party, I think, is their term, at the WTO. The Administration intends to push very hard for that.

MR. SWEENEY: We're not talking about -- the labor movement is not talking about a working group that's just going to continue the discussion. We're talking about a working group that is going to have some enforcement, some process to address the horrible situations that workers are confronted with. Whether all the responsibility will be within the WTO and their rules or there will be involvement of the ILO in terms of research and fact-finding, whether it will be some combination remains to be seen. But we're not talking about continuing this dialogue or this discussion forever. We are talking about something with teeth in it.

COMMISSIONER D'AMATO: Thank you.

MS. SOMSON: Could I have an opportunity?

COMMISSIONER D'AMATO: Certainly.

MS. SOMSON: There are a couple of things I would like to say. One is that the spin on that story could also have been that it's the first time that the business community has not objected to the United States taking this position. That isn't the spin they

chose to give it, but I think that is equally important.

But as President Sweeney said, it can't just be a conversation that's going on over here. It has to be part of the WTO, whether the ILO is brought in to help with the enforcement or not. We do not want to have happen to us what happened to the environmentalists. You might ask some of them when they testify later today.

There has been either a working group or a working party, and I'm not sure if there is a distinction, on the environment for several years now.

It has resulted in nothing. Of course, we wouldn't want that to happen with labor. I would just hope that Mr. Montgomery, on behalf of the Administration, would have the Secretary, and bring as much pressure on our trade representatives to pursue this issue as the business community brought on the Administration to pursue the intellectual property rights issue.

COMMISSIONER BECKER: I would like to add something to that, not to confuse it, but to clarify I hope a little. Six months ago or a year ago, you wouldn't have had any business forums at all that were endorsing or even suggesting that the WTO's policies be expanded to include core labor rights or environmental accords or human rights. There has been a dramatic

change, and I think largely because of the efforts of Mr. Sweeney and the UAW and other unions that have participated in this process.

MR. SWEENEY: And the steel workers.

COMMISSIONER BECKER: I would hope so.

Commissioner Weidenbaum?

CHAIRMAN WEIDENBAUM: First of all, I want to thank all three witnesses for coming to Pittsburgh. They are fine statements. I have a specific question for Mr. Sweeney, but the other two may have something to contribute.

I want to thank you, Mr. Sweeney, for reminding us of the people hurt by international trade.

That's an important consideration. I note that over the years, this concern has led to various restrictions on imports. So here is my specific question. It's in terms of the information. Has the AFL-CIO compared the jobs saved by protectionism, by trade restrictions with the jobs lost at the other companies whose competitiveness suffers when the supply of products is restricted and the costs go up? Have you weighed the pluses and the minuses?

MR. SWEENEY: It's really a continuing study. It's done not just in the AFL-CIO, but also with a number of our affiliates who have been most dramatically affected.

But it is safe to say that there have been substantial changes in employment where good jobs have become lousy jobs, and where full-time jobs have become part-time jobs. If you look at the numbers in terms of health coverage, as an example, a few years ago when we were going through the national healthcare reform, it was accepted that there were more than 35 million Americans without health insurance. Today, the accepted number is over 43 million, I believe, 44 million. The decline in private sector pension coverage is another indication.

So without -- we can provide the Commission with some specifics in some of the industries, and related to different trade agreements, NAFTA agreement and other agreements.

CHAIRMAN WEIDENBAUM: Maybe I didn't explain my statistical need clearly enough.

MR. SWEENEY: Let's try again.

CHAIRMAN WEIDENBAUM: Okay. Just to take a hypothetical case which has happened frequently. We restrict the supply of steel coming into the United States. Now that will help save some of the jobs in the steel industry. That's a plus. That goes in the plus column of the impact of trade restrictions. But that's not the end of the line.

You also have to look at the companies that buy, the American companies that buy steel and now are faced with a reduced supply and higher prices, and the erosion of their competitiveness and the jobs lost by the steel using industries.

I recall studies showing that there are more jobs lost in the steel using industries, for example, than are saved in the steel production industry by protectionism. I was wondering if you have more up-to-date studies or comprehensive studies, not limited to a single industry.

MR. SWEENEY: I'm not familiar with those studies, but today's Chairman may have some information. Mr. Montgomery may have, the Labor Department may have some information.

CHAIRMAN WEIDENBAUM: Thank you.

COMMISSIONER BECKER: Secretary Montgomery or Barbara Somson, feel free to join in.

MR. MONTGOMERY: I don't know of any recent studies that have evaluated the actual costs on each side of the equation. I think it's important to keep in mind what you are talking about here. Sometimes when people do these short-term studies, they may be looking at some short-term costs. One of the things you have to keep in mind is whether the costs to the steel sector or the sector that's hurt by these surges

are permanent. With highly capital-intensive industries, some of these surges that cause downsizing, may not be reversible. I have heard Mr. Becker speak fairly eloquently on that point. So there may be long-term permanent costs on the downside that are not offset on the upside.

So I guess I don't know of any recent systematic studies on this question. But our laws are supposed to protect our basic sense of fairness. When countries engage in illegal dumping, this violates our basic sense of fairness. One can say having police on the street and passing out parking tickets in some sense, imposes costs too. There are economists who say that's inefficient. So we balance both efficiency and what we believe is fundamental fairness and equity in deciding on our trade laws. So I think there's more to this equation than just the dollars and cents.

MS. SOMSON: The first answer Mr. Sweeney gave did respond in part to your question because he was suggesting perhaps, and I hope I'm not putting words in your mouth, that the kinds of jobs that are saved for steel workers with high pay and good benefits, and the ripple effect of all of that on a community like Pittsburgh or wherever there are steel mills might be better for society than the often low paying jobs without health care and without pensions

that you might be talking about in your ripple effect for these steel using companies.

I mean there is such a thing as jobs that are not that desirable. Jobs that pay barely the minimum wage, don't give people benefits, don't provide families with healthcare, and don't help people to prepare for their future retirement are not necessarily desirable.

CHAIRMAN WEIDENBAUM: Thank you, but really my question wasn't a loaded question. I start off with what I think is a neutral proposition that there are winners and losers from changes in trade policy. I would like to be able, as an economist, it is important for me to be able to measure the costs. I think it would be useful to the Commission.

COMMISSIONER BECKER: Let me help give you a measurement. The deficit itself is a measurement. You take all of the imports into the United States, and you take all of the exports from the United States, and you wind up with a shortfall. If those who advocate exporting equate 13,000 to 20,000 jobs per \$1 billion of export activity and we have shortfall, then, if you turn that around, we have a shortfall of \$300 billion within a given year, which we think it is going to hit the deficit this year. If you multiply that out, if you apply the same formula, then there is a shortfall

of jobs in the United States, anywhere from 4 to 6 million jobs. I think that is significant.

The other thing I would say because a couple of our guests that are testifying referred to me on this, is that there are two things I think we need to keep sight of. For every steel worker job that we have lost, studies have shown that we lose 3.5 to four ancillary jobs, community jobs that depend on this. That is one fact that weighs to it.

A second, these jobs are what I call family supportive jobs, and studies have supported this. These are the kind of jobs that support the safety net, the Social Security, the Medicare, the tax base of the communities that can't be supported solely on minimum wage jobs.

So the only thing that we have to weigh to good and bad on this is the deficit. I think the deficit speaks for itself. It's a rising deficit that most economists that have appeared before us up to this point in time, have said it's hitting a stage where it's questionable whether it's sustainable.

CHAIRMAN WEIDENBAUM: Well, I guess I was hoping, maybe optimistically, that someone had done a study, a very specific study showing not in general, but in terms of any specific trade restriction what are the pluses and minuses.

Let me just leave you with the point that I think the kind of analysis you and John Sweeney, and Barbara Somson have presented is useful. I think we should know what's at stake in terms of the hurt, the harm generated by current international trade policies.

But I think the analysis needs to be extended to look at the other side of the question.

COMMISSIONER BECKER: But they are. In every case that goes before the ITC, they weigh this. Now, as to whether there are in-depth studies, maybe one of the results of this Deficit Review Commission might be to suggest that we have studies of this type put together. There's no problem with that. But I think the ITC, the International Trade Commission, in a way examines the pluses and minuses on each case that comes before them. Whether it's in depth enough to look at this, I don't know.

But certainly the human equation, and Commissioner Weidenbaum, you keep using the word "protectionism." We need to have a discussion on what protectionism really means. I mean we're all protectionists in a way. There is a problem with me being Chairman of this hearing. You know, everybody who has served in the military, everybody who has had anybody in their family serve in the military, everybody who has championed our way of life is a

protectionist in a way. We have always spent our life trying to protect ourselves, workers, families, and community. I don't think we should be making a dirty word out of the word "protectionism" because this is exactly what we are talking about.

But I think we should have another question here.

CHAIRMAN WEIDENBAUM: I just want to say you give the ITC too much credit.

COMMISSIONER BECKER: I know.

CHAIRMAN WEIDENBAUM: They do not cover the consequences on other industries on the consumer of trade, not protection restrictions. But thank you, Mr. Chairman.

COMMISSIONER BECKER: Commissioner Rumsfeld?

COMMISSIONER RUMSFELD: Thank you, Mr. Chairman. Thank you so much for your appearance today and your presentation.

I have a problem similar to Dr. Weidenbaum's. It goes to the value of the data. As a young Congressman back in the 1960s, I served on the Joint Economic Committee. I remember serving on the Economic Statistics Subcommittee and being frustrated by the fact that the data always seemed to be lagging

by a significant number of years, what was taking place in the world in the economy.

My recollection is there is something called the standard industrial classification system, and that it was fashioned about the time I was born. It gets revised I suppose every decade or two. Mr. Sweeney, you talked about it's really an issue of good jobs versus lousy jobs. Your testimony talks about the trade deficit may have only a small impact on aggregate employment, but it clearly affects the composition of employment, causing manufacturing jobs to be replaced by lower paying service sector jobs.

I think Mrs. Somson talked about the question of manufacturing jobs versus minimum wage jobs or good jobs versus jobs that don't pay benefits.

The fact is that computer programmers are classified as service. That's crazy. They aren't low paid jobs, they aren't without benefits, and they aren't lousy. They are good jobs. There has been this massive shift in our country from "manufacturing" jobs, I think I'm right, something like this, it's gone in my lifetime, probably from 35 percent down to 15 percent manufacturing jobs. Service jobs have gone up from maybe 10 percent to 30 percent.

As I look at that, I come away with a conclusion that it is no longer a useful

characterization, to talk about "manufacturing" and "service." I can see using phrases like "central" and "peripheral," but to equate manufacturing with "good" and service with "lousy," and hamburger flippers, and then to take the data and suggest that that supports that concept is wrong. I don't know that it is wrong, but I do think it is well out of date.

Think of what has happened in our economy in the last decade alone. I don't know when the last time they corrected these statistics was, but in the last decade, we have had just an enormous shift in where job creation is taking place. If all of us want to come out with the right answers to these issues, we can't do it if the data isn't good. I worry about it. So it is a concern I am expressing more than a question.

MR. SWEENEY: My own union is the Service Employees' International Union. I have spent all my life with organizing and representing service workers prior to being elected to my present job at the AFL-CIO. There is a lot of data about service sector jobs and the breakdown and where the growth is taking place.

We would be happy to really share that with you. It would take longer than time allows here today. But the growth is not in the computer jobs. There are other industries in the service sector that are growing a lot

faster. Teachers' aides, home health care are areas where there is far more growth than there is in the high tech and the computer jobs that you refer to.

I don't know what work the Department of Labor is doing, but Dr. Montgomery may have some additional information. But we would be glad to supply the Commission with some breakdowns on employment in the service sector.

COMMISSIONER RUMSFELD: Good. In the service sector as it's currently defined? Which isn't the service sector, in my view. In other words, it has things in it that don't belong in there.

MR. SWEENEY: Well, you can do your own reformulation or restructuring and pull out those areas of jobs that you want to include.

COMMISSIONER RUMSFELD: Thank you.

MR. MONTGOMERY: The good or the bad news is they are about to completely redo the SIC codes and come up with a whole new system. People are totally confused about the new system, but nonetheless, they are about to go to a whole new system on that, partly as a reflection of exactly what you said. The SIC codes have been in existence for 40 or 50 years or more, and we need to have a method of classification that reflects the way things are organized.

I think the picture is a bit complicated. I think one can both acknowledge that the fastest growing occupations are in the computer industry, but the largest number of new jobs are also in some of the lower paying service sector occupations. So you are getting lots of rapid growth in a very high skilled job, but also at the same time, we are creating a fair amount of home health aides and other low wage jobs in the service sector.

I think a point to keep in mind is while most jobs that we have created in the last half dozen years or so pay above the average wage, are in higher paying occupations, we are also creating an awful lot of jobs that are below the median wage.

COMMISSIONER RUMSFELD: Below the median or the minimum?

MR. MONTGOMERY: Median, I'm sorry. Median wage, not below the minimum. Studies still consistently show, which I think is the point that President Sweeney was making, that when workers are dislocated from their job, the question for them is where do they go? What do we see for them? On average, estimates are that they lose about 15 percent off their wages. That doesn't even include whether they are as likely to get benefits, particularly health care.

So displacement still is costly for an individual. If an individual had a job, on average, he is going to lose about 15 percent, even in our growing economy.

COMMISSIONER RUMSFELD: I don't disagree with that at all. In an individual's case, any kind of trade has effects that dislocate people, whether it's trade within a country or between countries. You say it's about to change. When is that?

MR. MONTGOMERY: I believe they are going to do it after the 2000 Census. It probably won't be in place until 2003 or 2004, but I can get you the exact dates. It is taking them a while to do that.

COMMISSIONER RUMSFELD: You are a patient man.

MR. MONTGOMERY: By BLS standards, that's around the corner; so these things move slowly.

COMMISSIONER RUMSFELD: Thank you.

MS. SOMSON: I'm sorry. I keep wanting to jump in here. I share your frustration that there isn't data. I think it is interesting that you have the perception that computer programmers are well paid, and perhaps they are. We really don't have the data. But there are a couple of things that I think are interesting. One is that in looking to organize this field, the labor movement has found that an awful lot

of these people are independent contractors, whether they are being misclassified as independent contractors or whether they in fact are, and so what that might mean is while their hourly wage might be high, again, we're seeing people who don't have health benefits and who might not be provided for properly for their retirement.

I also note, and I'm not sure what the definition is, but as you know, there is a minimum wage bill in Congress right now, and on the House side, there's a whole tax package that's going with the minimum wage bill. We don't know what is going to be in the final bill, but one of the provisions that's there now is to change the status of a lot of computer workers. I'm not positive, but I think it might include computer programmers, so that they are not covered by the Fair Labor Standards Act, which would mean that they didn't get time and a half, et cetera.

So I agree with you, that we don't have enough information. But I think that there is a perception these are well paying jobs, and that maybe that's not completely accurate, and maybe it's starting to change a little. It's better than flipping hamburgers, I agree.

COMMISSIONER BECKER: We are going to have to move along here to make sure we give everybody a turn.

Commissioner Lewis?

COMMISSIONER LEWIS: Thank you very much for your presentations. Could we get your statements, Mr. Montgomery and Ms. Somson? We have John Sweeney's statement. I think it would be helpful.

I have a question for each of you. I may not get another crack at you, so I would like to ask each of you a separate question.

Mr. Sweeney, I would like to ask could you give us your view of the importance of manufacturing jobs in companies as part of the overall economy? If Mr. Rumsfeld said that we have gone down from 30 percent to 15 percent, and services have gone from 15 to 30, what does this bode for the American economy as a whole? That's number one.

Number two, have you done a study as to what the impact of trade has been in both gains and losses in jobs in the manufacturing sector, taking into consideration Mr. Weidenbaum's question that some imports help manufacturing here, and obviously some imports replace manufacturing here? Have you done any analysis of the jobs gained and lost through free foreign trade in the last 10 or 15 years?

For Mr. Montgomery, I have a question. You said that trade is not a goal in and of itself, but that trade is part of a way of improving people's lives, and we're not in it just for trade. You made the statement that trade has resulted in higher economic growth. Obviously exports result in higher economic growth, but could you tell us the basis on which you say that trade has resulted in economic growth when we know that imports replace jobs and exports create jobs, why do you say that trade, which has resulted in deficits for us, has resulted in higher economic growth? That's number one question.

The second question for you is do we have statistics that show when an American company exports, what of the exports are going to affiliated companies overseas which then export to another affiliated company, which ends up in those goods coming back as imports into the United States? Because I heard once that General Electric was the biggest exporter to America. I was stunned when I heard this. I was wondering if we had the statistics on tracing the trade flow.

Then, Ms. Somson, I have a question for you. You said that tax laws encourage companies to build overseas. Could you tell us what these tax laws say today and how it encourages overseas investments? I

heard, for example, that Mexico sells us more cars than we sell to the rest of the world. What is to stop every American automobile manufacturer from closing down and opening in Mexico?

MR. SWEENEY: Well, to quickly respond to the two points that you raised with me, there is work that has been done in terms of showing the importance of manufacturing jobs to the economy and to the communities in which the manufacturing jobs are located. We would be glad to supply you with that information.

I would have to answer the question about the study of the effect on other jobs that the Chairman was raising earlier, we really don't have any study that we know of on that, but we'll research it and see if we can come back to you with some more information.

COMMISSIONER LEWIS: Aside from the question of that one, how about trade itself, in terms of the impact on manufacturing jobs in America? Have we gained or lost jobs as a result that export jobs create jobs, and the import jobs sometimes lose or replace jobs. Have you done a study on how trade has impacted manufacturing in America?

MR. SWEENEY: Oh sure. Well, the NAFTA experience, there's been some work done on that by the individual unions and the effect that it has had.

COMMISSIONER LEWIS: That's just NAFTA. We don't make TV sets anymore. We don't make video recorders anymore.

MR. SWEENEY: Right.

COMMISSIONER LEWIS: That's all manufacturing?

MR. SWEENEY: Right.

COMMISSIONER LEWIS: Have you done any studies on what the effect of free trade has been on total manufacturing? Not just the NAFTA countries, but also the total trade that we do. What impact has that had on manufacturing in America?

MR. SWEENEY: Well, it's safe to say that it's had a negative impact. There are individual studies that have been done in individual industries. The electrical workers have done some studies in terms of the effect of the loss of just about all the jobs in the manufacturing of TVs and radios and other electrical appliances. But we would be glad to submit that to the Commission.

COMMISSIONER LEWIS: When you do that, I would also appreciate it if you could talk about the security implications of this. I heard once that we don't even make the things that are needed for security purposes any more, that we're so dependent on imports.

MR. SWEENEY: Sure.

COMMISSIONER LEWIS: Thank you.

MR. SWEENEY: Thanks.

MR. MONTGOMERY: Let me deal with them, perhaps not in the order that you asked them. I think most economists would take the view that trade as a whole has really little, if any, effect on aggregate employment in the long run. Trade is a source of demand. Like other sources of demand, total aggregate employment in the long run is really not determined by trade, unless it translates into productivity and changes other things.

So in the aggregate, I think there is little effect of trade positively or negatively on total employment.

But what it does do, as President Sweeney pointed out, is change the composition perhaps of employment. What it does do is change, have the potential of raising the level of our standard of living. It can raise real income in the country. Again, it doesn't necessarily say what the distributions of those rewards are across individuals, but it does raise the total level.

So I think the studies that sort of say that imports necessarily one for one lead to job loss, as exports one for one lead to job gains, and hence you should do the equation that way, I think that's not the

proper way to do that analysis, or you'll come out with that conclusion. Again, if that was really the way, then you would say we have run record trade deficits the last three years, how can we possibly have continually falling unemployment down to the record lows that we have today.

I think in the aggregate, let me emphasize, the net effect is probably very small. But there are sectoral consequences for different parts of industries and firms, and there are distribution questions for workers. Whether it exacerbates inequality between high-wage and low-wage workers are both open questions.

There is some evidence that indeed it does have some adverse effects on inequality, and obviously has some adverse effects on some sectors.

As for statistics on re-exports and re-importation, I don't have any on those. I can try and see whether the Commerce Department collects those kinds of data, but I am definitely not aware of what kind of aggregate activity there is on re-importation.

COMMISSIONER LEWIS: You don't know if we keep those statistics?

MR. MONTGOMERY: I personally don't know whether we even keep those kinds of statistics, how those are tracked. I know the whole question about outsourcing is a very difficult one. People have a lot

of interest in tracking outsourcing, and by implication, re-importation. Perhaps Ms. Somson has some more information on that in terms of autos and so forth, but I am not aware of whether we even track that data.

By the statement that trade is not an end in itself, I mean again, we are trying to improve. Why do we want higher income? We want income improve our way of life. We want to be a better society. There are a variety of ways of getting there. Trade is but one of the means. Having trade for its own sake isn't necessarily our objective here. It is because trade allows us to improve the living standards of the average American that we're interested in it.

There are those who would be pure income maximizers or just pure activity generators, but I think the reason we as a society, and we as policy makers are interested in trade, and think trade is an important vehicle for us, is because it does hold out the opportunity for us to continually improve our standard of living and for people around the world to improve their standard of living.

MS. SOMSON: With respect to that re-exporting, in my longer statement which was prepared by our trade economist, Steve Beckman, he uses the expression "visitors" or something like that. We see

this in the auto industry. The parts go right across the border and then come back again. When I asked him about that, he told me that this isn't tracked, I don't even know if it's possible to track it but that he couldn't really give us numbers. But he did mention that phenomenon in the testimony.

With respect to the tax laws, I am no tax lawyer, believe me. But I know that the income taxes on income earned abroad is deferred. As long as it's deferred, then there is an incentive to just keep that money and reinvest it abroad.

But your final, your big, broad question is why not just move all of the manufacturing to Mexico? That is really our concern. The wages and benefits are about 10 percent in Mexico compared to the negotiated wages here in the United States. They have got new plants down there. Now it is true that they do not make all the same models, but they, as I said in my testimony, they build off platforms so that there is some flexibility in what they build on that platform.

In many instances, we have plants in the United States, a plant building off the same platform in Mexico and maybe one in Canada. It is our concern that when demand goes down, and I have to tell you that the American auto industry is going to have a record year this year, we will have sold more American

automobiles than ever in history, but it is a cyclical industry and at some point, there has to be a slowdown.

There will probably be less demand for automobiles. It is exactly our concern that the plants that will close or at which major layoffs will occur, will be in the United States, and that the manufacturers will keep open the newer plants where people make 10 percent of what UAW members make in Mexico.

COMMISSIONER LEWIS: Are there any statistics that you keep in your union about the building of plants overseas by American automobile companies?

MS. SOMSON: We try to, but it is very difficult to get this information. We do a lot of clipping of newspapers and trade journals.

I tried to find out what the average wage is at the American automobile plants in China, and what Steve gave me, and he has been tracking this very closely, is a newspaper article from England, that the Shanghai GM plant paid 59 cents an hour. That's all I have. I don't know about benefits. We hear anecdotes.

We have even heard from the company, for example, an anecdote about supplemental benefits for unemployment.

In UAW-represented auto plants in the U.S., on top of the government's UI, the auto companies, who don't want to lose the workers when they're laid off, supplement

their unemployment benefits so they get almost 100 percent of their wages.

I guess GM had looked at doing something like that in China, and we were told by one of the GM managers that they were asked not to by the Chinese government, because they didn't want this American company to be offering so much more.

COMMISSIONER LEWIS: So we don't know what portion of the American automobile manufacturer's work is not being done in the United States?

MS. SOMSON: I can get you whatever it is we have, but these are not official statistics that are kept by the United States Government.

COMMISSIONER LEWIS: Thank you very much.

COMMISSIONER BECKER: Commissioner Wessel?

COMMISSIONER WESSEL: I would like to turn for a minute to the question of what happens to the workers who are displaced by trade. It often is the fact that we look at the losers in trade as a cost only when we start trying to pass agreements through Congress rather than preparing for potential losers as we negotiate the agreements and having some kind of integrated system in place.

When the European Union began their negotiations for the integration of the low wage countries, Spain, Portugal, and Greece, they put in

place a structural adjustment program which cost approximately \$25 billion a year.

You talked about the fact that our workers generally end up with 15 percent lower wages once they are displaced. If we are going to build confidence that as the economy goes through changes as we seek to embrace international trade, we need to have some kind of coherent adjustment program in place that does not depend on losses tied to a specific trade agreement, but rather really ensure that we are training and retraining our people consistently? With our programs, I believe costs are in the neighborhood of \$1 billion a year. What would your view be of cost? I open that up to the three panelists.

MR. MONTGOMERY: The Administration has it in its 2000 budget, and the President made a commitment last year to engage in an effort to provide universal reemployment so that every worker who is dislocated, regardless of the cause, can qualify for dislocated worker's assistance. This is a five-year commitment. The first down payment in this year's budget is about \$190 million for that effort, on top of what we already have in place.

In addition, the Administration is trying to put in a system where we have enhanced employment service so that people get more job search assistance,

again, to speed that process, so it's not just income support but also a faster system, a more efficient system of reemployment.

We have also proposed, and it is in front of Congress, changes or consolidation of the NAFTA TAA and the regular TAA programs so that they have more consistent rules. So that right now, we have a system where if your plant closes and moves to Mexico, you are treated differently than if your plant closes and moves to Brazil. That seems to be a bit of a contradiction and probably not what we would want as a society. So in terms of your question and future agreements, we're trying to consolidate so that people who are hurt by shifts in production, no matter where it goes, they would all get the same kind of universal system.

So the President does have in his budget an enhanced system and recognition that all workers who are dislocated, regardless of whether it's trade or, quite frankly, whether it's technology, or whether it's a variety of other sources, need to have help to be able to compete in the economy.

MS. SOMSON: Well, right now the trade adjustment assistance program needs to be reauthorized.

It is running on kind of a gimmick, if you will, that appropriations came after the authorization ran out. Therefore, it is assumed that Congress intended to keep

it running. But it is currently not authorized. Its authorization ran out on June 30th. We have a very grave concern that if it isn't reauthorized before Congress goes out of session, there is a risk that the way CBO, the Congressional Budget Office, scores these things, that the TAA program will drop off the baseline and require offsets in the future.

So we are trying to save this program from falling off the baseline, but we are very interested in the reform legislation. The Chairman of the Ways and Means Committee is not as interested in this program as we might like. There have not been hearings. We would like to see it expanded. But right now, we are busy just trying to get it reauthorized.

COMMISSIONER BECKER: Oh, I'm sorry.
Commissioner Papadimitriou?

VICE CHAIRMAN PAPADIMITRIOU: Thank you very much, Mr. Chairman. First, let me also thank you for coming in and presenting your commentaries. I am sure they will be extremely helpful in our deliberations, and certainly when we come out with a final report.

I have two questions for Secretary Montgomery. First is a point of clarification, which follows I think a question raised by Commissioner Lewis, which refers to the growth. Did I hear

correctly that the higher imports as opposed to exports have no effect on growth? That's my question of clarification.

My second question is that given the level of the accumulated trade deficit, does the Administration have any idea how long this is sustainable, and if in fact, there is a view about its sustainability, and what will happen after it no longer is sustainable?

MR. MONTGOMERY: Clearly, GDP accounting will tell you that exports and imports or the trade balance has an effect on GDP.

The question is how do we think about trade. Is it exports minus imports when we think about long run economic activity? Is it the volume of trade activity, imports plus exports that really generates long-term benefits to the economy? I guess I would argue that it's really the volume that generates these long-term benefits, because in the long term, is going to generate productivity enhancements, that's going to shift out the aggregate supply curve, if you will, it is going to be the volume of trade, not simply exports minus imports, which is sort of a purely demand side analysis.

As to the question about sustainability, you know, we have an \$8 trillion economy. Clearly one

has to be concerned about \$200 billion deficits, but whether they are large relative to the size of our economy, it's not clear. I think our economy is strong overall, and there's certainly no signs right now that this is unsustainable.

VICE CHAIRMAN PAPADIMITRIOU: Thank you.

COMMISSIONER WESSEL: Can I follow up with one question?

Mr. Sweeney in his testimony included data indicating the trade deficit also drags down overall growth. In 1996, reduced GDP growth by .27 percent, in 1998, 1.13, and this year, potentially 2.23. Is that Administration data? Is that data and estimates that you believe are correct?

MR. MONTGOMERY: I haven't seen the source of Mr. Sweeney's estimates. Probably what he did is take the trade balance and cancel that out, and see how much higher GDP would have been.

Again, I think from our perspective, what you have to say is we've got an economy which is growing at three or four percent a year. Would we grow that much demonstrably faster if we had not had the trade deficit? I think it is clear that we are growing very quickly. It is clear we are growing very healthily. It's clear that we are at full employment or near full employment, and we have had a very strong

record of economic growth, even in the face of these trade deficits.

COMMISSIONER BECKER: We're just about right on target on this.

MR. SWEENEY: Those numbers are taken from the Council on Economic Development reports.

COMMISSIONER LEWIS: George, I have one last question.

COMMISSIONER BECKER: Let me throw one out here. I wanted to get one in here.

Just very quickly, particularly to Ms. Somson and John Sweeney. In your opinion, what would be the effect of China's accession into the WTO? What effect would this have on the auto pac, on the trade balance for autos? What do you think it would be overall on the deficit? What is your opinion on that?

MS. SOMSON: I'm glad you asked that question. I recommend to the Commission a report which was prepared by the International Trade Commission at the request of the U.S. Trade Representative. It is very, very detailed, as you can see. But there are two salient points that are in here. One sentence, on page 20, that China's accession to the WTO will cause an increase in the United States' trade deficit.

Then the other point, and they are not unrelated, is the chart on page 22 which shows that the

auto trade deficit, in particular, will increase substantially.

COMMISSIONER BECKER: In support of what you said a little while ago about how difficult it is to get accurate information on wages and benefits for China, we have struggled with this ourselves. I was reading an article on a difficulty in Mexico. One of the plants that moved from the United States to Mexico, because of the threat of an earnings or an income tax, are going to move to China. Their statement in the paper says the wage in China is only \$2 a day, where they are paying \$4 a day in Mexico, thus a 50 percent cut in wages. It said no unions and no turnover. You wonder how they can guarantee this, but no turnover. Everything else is taken care of by the government. Now this was a newspaper article. It's hard to come to grips with this in some way. Maybe other groups could.

John, Mr. Sweeney, do you share any thoughts on this also?

MR. SWEENEY: I would share Barbara's thoughts, but I would just like to add that we don't think that China should be admitted to the WTO until the rules are clear in terms of core labor standards and environmental protections. Those rules should be set before China is admitted because China has a poor track record in terms of living by the rules.

COMMISSIONER BECKER: Mr. D'Amato had asked for one last question. I will grant that. We're already running over on time. I don't want to lose the next panel.

COMMISSIONER D'AMATO: I'll be very quick, Mr. Chairman. I want to thank the panel for engaging us in this dialogue this morning.

President Sweeney, you mention in your testimony about global inequality is at an all-time high in the history of the world. I note here, of course, this issue in NAFTA, the article today in the Wall Street Journal on Mexico is called now the "New South" according to this journalist. The U.S. has got a new South, it's called Mexico. The idea is that it's a parallel to the economic vibrancy that was created four decades ago in our South, in the Southeast.

Let me just quote, and then ask you a question here. "A similar process is now unfolding in Mexico. In the five years since the passage of NAFTA, U.S. manufacturers have hired 600,000 new workers in Mexico. The pace of job creation almost identical to what took place in the U.S. Southeast in the 1960s and 1970s. Once sleepy towns are turning into cities with malls, multiplexes, reminiscent of the U.S. Sunbelt. Laborers who once sought a better life across the border are now settling in the arid north of Mexico to

work in the factories that have become critical to the global production plans of U.S. firms." Kind of a rosy scenario, with the implication being that we'll be able to export to a newly affluent Mexican culture.

My question is, what is the balance? Are exports from the U.S. going to flow into this region, creating jobs in the United States? Is that what we see? Is the quality of life going to improve there? Are there core labor standards, environmental standards, because of this new so-called affluence? What is the balance? I know that Ms. Somson is interested in this from the United Auto Workers viewpoint, but I would like to hear from President Sweeney on that, too. What is the balance in terms of this kind of scenario? What is the dark side to this rosy scenario?

MR. SWEENEY: Well, I haven't read the Journal today, but I don't know what part of Mexico or how extensive this reporter has traveled around. Our own experience in our own trips to Mexico, George Becker was there recently as was I myself, I don't see that rosy scene that he has seen. It may be in some small region or some small area.

There has been relatively small improvements in terms of wages and workers' benefits in Mexico where there has been. I mean Mexico has some

good labor laws. They are not enforcing them. The situation is horrible. We can take that reporter on a trip down there and show him the horror stories that are there. The kind of job growth is the jobs that I call lousy jobs, the most horrible living conditions. Yet we have American business building brand new high tech buildings for their operation there. The workers are living in huts with the poorest, worst sanitary conditions and so on. So I'm not sure. Probably after I read the article, I'll have more to say.

CHAIRMAN WEIDENBAUM: Could I ask a question for Mr. Montgomery?

COMMISSIONER BECKER: Well, my only problem with any of this is that we are going to lose the next panel, which was supposed to be on 10 minutes ago. It is a very important panel that we have here, but I think we have really run out of time.

CHAIRMAN WEIDENBAUM: Fine. I'll yield.

COMMISSIONER BECKER: We have actually two more panels to get in before the lunch break.

I want to thank the panel very much. I will answer any of your questions.

(Laughter.)

I want to thank all three of you for coming. It was a pleasure, and you have added a lot to our deliberations. Thank you.

Excuse me a second. Let me catch the mic here. John, before you and the other panelists leave, I know Mr. Lewis, particularly, wanted to ask questions as well as Mr. Weidenbaum. We will submit written questions to the panelists. You can answer them and it will go into the record.

MR. SWEENEY: That's what Jesse Helms told us the other day.

(Whereupon, the foregoing matter went off the record at 10:14 a.m. and went back on the record at 10:18 a.m.)

COMMISSIONER BECKER: Could the next panel take your seats, and we can go ahead and start.

I am learning as I go along, there are a couple of instructions to the panelists here, Paul Wilhelm, the Chairman and CEO of U.S. Steel, USX, and Dick Simmons of Allegheny Ludlum.

Do you use the name Teledyne in there too?

MR. SIMMONS: No.

COMMISSIONER BECKER: Allegheny Ludlum for this purpose here?

MR. SIMMONS: For this.

COMMISSIONER BECKER: I was asked to request that you pull the mic up when each of you speak. You have one mic to share there, but pull it up to you when

you speak. The court recorder is having difficulty catching everything.

We have a clock in front of us here. Your presentation is for seven minutes. Five minutes, and then it turns yellow, and you have two minutes to wrap up. I am supposed to raise hell with you if it goes beyond that period of time.

At the conclusion of your remarks and for the balance of your time, there will be questions from the Commissioners and answers. We ran a little bit tight on the last panel, so I'll say this at the beginning, that if we run out of time, the Commissioners can submit written questions to you in writing, and hopefully you will answer them. They will go into the record.

So having said that, why don't we start with Paul Wilhelm, the Chairman of USX.